

**Tennessee Board of Regents  
Tennessee Technology Center at Knoxville**

**For the Years Ended  
June 30, 1999, and June 30, 1998**

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[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

September 12, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable Charles Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217  
and  
Dr. David Esa, Director  
Tennessee Technology Center at Knoxville  
1100 Liberty Street  
Knoxville, Tennessee 37919

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Knoxville, for the years ended June 30, 1999, and June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The center's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/sdr  
00/066

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Technology Center at Knoxville**  
For the Years Ended June 30, 1999, and June 30, 1998

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the center's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **An Annual Inventory of Equipment Was Not Performed**

The center did not perform an equipment inventory during the 1997, 1998, or 1999 fiscal years. Without a timely equipment inventory, missing, damaged, or obsolete equipment items may not be removed from the center's equipment listing. Incorrect financial reporting could result (page 8).

## COMPLIANCE FINDING

### **Student Financial Aid Refunds Were Not Calculated Correctly**

Three of eight student financial aid refunds tested at the center were not calculated correctly. The failure to perform refund calculations as described in federal student financial aid regulations could result in an overaward to some recipients or in a failure to make necessary refunds (page 8).

## **OPINION ON THE FINANCIAL STATEMENTS**

The opinion on the financial statements is unqualified.

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“Audit Highlights” is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report**  
**Tennessee Board of Regents**  
**Tennessee Technology Center at Knoxville**  
**For the Years Ended June 30, 1999, and June 30, 1998**

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**TABLE OF CONTENTS**

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	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
Organization		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		2
<b>OBSERVATIONS AND COMMENTS</b>		3
Title IX of the Education Amendments of 1972		3
<b>RESULTS OF THE AUDIT</b>		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
Findings and Recommendations		8
Finding 1 - An annual inventory of equipment was not performed		8
Finding 2 - Student financial aid refunds were not calculated correctly		8

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## TABLE OF CONTENTS (CONT.)

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	<u>Exhibit</u>	<u>Page</u>
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		10
Financial Statements		
Balance Sheets	A	12
Statement of Changes in Fund Balances for the Year Ended June 30, 1999	B	13
Statement of Changes in Fund Balances for the Year Ended June 30, 1998	C	14
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1999	D	15
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1998	E	16
Notes to the Financial Statements		17

**Tennessee Board of Regents  
Tennessee Technology Center at Knoxville  
For the Years Ended June 30, 1999, and June 30, 1998**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Knoxville. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

A statewide system of area vocational-technical schools was established in 1963 by Section 49-11-401, *Tennessee Code Annotated*, to meet the occupational and technical training needs of the citizens of the state, including employees and future employees of existing and prospective industries and businesses in the state. The area vocational-technical schools were governed by the State Board of Education until July 1, 1983. At that time, governance was transferred by Section 49-11-402, *Tennessee Code Annotated*, to the Tennessee Board of Regents. Effective July 1, 1994, the area vocational-technical schools became state technology centers. The Tennessee Technology Center at Knoxville began operation in 1967.

**ORGANIZATION**

The Tennessee Technology Center at Knoxville operates under a lead institution agreement with Pellissippi State Technical Community College. Under this agreement, Pellissippi State Technical Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.



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## AUDIT SCOPE

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The audit was limited to the period July 1, 1997, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1999, and June 30, 1998. The Tennessee Technology Center at Knoxville is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the center's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
  2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
  3. to determine the fairness of the presentation of the financial statements; and
  4. to recommend appropriate actions to correct any deficiencies.
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## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## OBSERVATIONS AND COMMENTS

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### TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

*Tennessee Code Annotated*, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The center did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the center is not in compliance with the federal law.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the center's financial statements for the years ended June 30, 1999, and June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. A reportable condition, along with the recommendation and management's response, is detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the center's financial statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

June 28, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Technology Center at Knoxville, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1999, and June 30, 1998, and have issued our report thereon dated June 28, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the center's financial statements are free of material misstatement, we performed tests of the center's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note one immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the center's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- An annual inventory of equipment was not performed

This condition is described in the Findings and Recommendations section of this report.

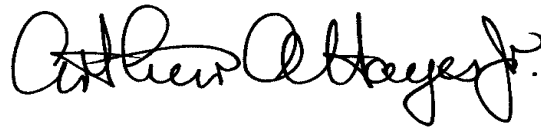
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted another matter involving the internal control over financial reporting, which we have reported to the center's management in a separate letter.

The Honorable John G. Morgan  
June 28, 2000  
Page Three

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sdr

## **FINDINGS AND RECOMMENDATIONS**

### **1. An annual inventory of equipment was not performed**

#### **Finding**

The Tennessee Technology Center at Knoxville did not perform an equipment inventory in the 1997, 1998, or 1999 fiscal years.

It is the school's policy to perform an annual equipment inventory. If any item is missing or stolen, it is to be reported in writing to personnel at Pellissippi State Technical Community College, the center's lead institution.

The center's equipment system is used to provide current accountability for its equipment and to prepare its financial statements. The absence of an annual equipment inventory means that missing, damaged, or obsolete equipment items may not be removed from the center's equipment listing and incorrect financial reporting could therefore result.

#### **Recommendation**

An inventory of equipment items should be performed each fiscal year. The center's equipment listing should be updated as necessary.

#### **Management's Comment**

Management concurs with the finding. The center completed an inventory as of June 30, 2000 of all capitalized items. An annual equipment inventory will be conducted and the listing will be updated as necessary.

### **2. Student financial aid refunds were not calculated correctly**

#### **Finding**

Three of eight financial aid refunds tested at the Tennessee Technology Center at Knoxville were not calculated correctly. In one case, a transposition error occurred. In the other two cases, a failure to understand federal student financial aid regulations and the technology center's refund/repayment worksheets led to the calculation errors. A review of other refund worksheets indicated similar errors.

The failure to perform refund calculations as described in federal student financial aid regulations could result in an overaward to some recipients or in a failure to make necessary refunds.

### **Recommendation**

Technology center management should institute training and additional review procedures as necessary to ensure the proper calculation of federal student financial aid refunds.

### **Management's Comment**

Management concurs with the finding. Beginning with the 2000-2001 fiscal year, the federal government has made available to each school software to accurately compute refunds. This should ensure proper calculation of federal financial aid refunds.

Each employee in the Financial Aid Office has attended at least two training sessions on the 2000-2001 Refund Procedure.





**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
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PHONE (615) 741-3697  
FAX (615) 532-2765**

**Independent Auditor's Report**

June 28, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Technology Center at Knoxville, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the center's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

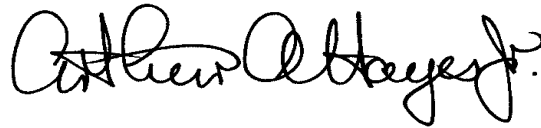
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technology Center at Knoxville, as of June 30, 1999, and June 30, 1998, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan  
June 28, 2000  
Page Two

As discussed in Note 9 to the financial statements, the center implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 8, the center changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2000 on our consideration of the center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS  
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE  
BALANCE SHEETS  
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999	June 30, 1998		June 30, 1999	June 30, 1998
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Note 2)	\$ 42,818.25	\$ 20,572.38	Liabilities:		
Accounts receivable (net of allowance			Accounts payable	\$ 153,141.67	\$ 73,360.02
of \$3,074.06 at June 30, 1999, and			Accrued liabilities	29,332.36	25,060.99
and \$1,984.81 at June 30, 1998)	9,137.33	14,745.37	Deferred revenue	-	9,567.50
Prepaid expenses	15,466.32	80.00	Compensated absences	140,017.22	144,976.31
Due from restricted current funds	192,558.23	218,239.41			
			Total liabilities	322,491.25	252,964.82
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	22,691.22	9,502.71
			Allocation for encumbrances	-	31,826.16
			Allocation for compensated absences	(140,017.22)	(144,976.31)
			Unallocated	54,814.88	104,319.78
			Total fund balances	(62,511.12)	672.34
Total general	259,980.13	253,637.16	Total general	259,980.13	253,637.16
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Note 2)	57,710.18	149,633.88	Fund balances:		
Accounts receivable	32,614.22	28,672.82	Nondiscretionary allocation:		
			Allocation for working capital	32,614.22	28,672.82
			Unallocated	57,710.18	149,633.88
			Total fund balances	90,324.40	178,306.70
Total auxiliary enterprises	90,324.40	178,306.70	Total auxiliary enterprises	90,324.40	178,306.70
Total unrestricted	350,304.53	431,943.86	Total unrestricted	350,304.53	431,943.86
Restricted:			Restricted:		
Accounts and grants receivable	196,528.22	224,076.35	Liabilities:		
			Accounts payable	208.50	694.49
			Accrued liabilities	42.90	1,423.86
			Due to unrestricted current funds	192,558.23	218,239.41
			Total liabilities	192,809.63	220,357.76
			Fund balance	3,718.59	3,718.59
Total restricted	196,528.22	224,076.35	Total restricted	196,528.22	224,076.35
Total current funds	\$ 546,832.75	\$ 656,020.21	Total current funds	\$ 546,832.75	\$ 656,020.21
Loan funds:			Loan funds:		
Cash (Note 2)	\$ 200.00	\$ 200.00	Fund balance:		
			Institutional funds:		
			Restricted	\$ 200.00	\$ 200.00
Total loan funds	\$ 200.00	\$ 200.00	Total loan funds	\$ 200.00	\$ 200.00
Plant funds:			Plant funds:		
Renewals and replacements:			Renewals and replacements:		
Cash (Note 2)	\$ 182,110.58	\$ 384,105.37	Fund balance:		
			Unrestricted (Note 3)	\$ 182,110.58	\$ 384,105.37
Total renewals and replacements	182,110.58	384,105.37	Total renewals and replacements	182,110.58	384,105.37
Investment in plant:			Investment in plant:		
Land	49,600.00	49,600.00	Fund balance:		
Buildings	5,124,880.65	1,258,731.65	Net investment in plant	7,772,534.78	7,201,683.81
Equipment	2,598,054.13	2,435,468.18			
Construction in progress	-	3,457,883.98			
Total investment in plant	7,772,534.78	7,201,683.81	Total investment in plant	7,772,534.78	7,201,683.81
Total plant funds	\$ 7,954,645.36	\$ 7,585,789.18	Total plant funds	\$ 7,954,645.36	\$ 7,585,789.18
Agency funds:			Agency funds:		
Cash (Note 2)	\$ 9,394.63	\$ 6,708.14	Liabilities:		
Accounts receivable	-	3,188.00	Deposits held in custody for others	\$ 9,394.63	\$ 9,896.14
Total agency funds	\$ 9,394.63	\$ 9,896.14	Total agency funds	\$ 9,394.63	\$ 9,896.14

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds			Plant Funds		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan Funds</u>	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Investment in Plant</u>
<u>REVENUES AND OTHER ADDITIONS</u>						
Unrestricted current fund revenues	\$ 2,468,314.86	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	34,517.70	-	-	-	-	-
State appropriations	-	-	-	482,673.02	-	-
Federal grants and contracts	-	959,502.69	-	-	-	-
Local grants and contracts	-	773.67	-	-	-	-
Private gifts, grants, and contracts	-	27,847.67	-	-	-	-
Investment income	-	-	-	-	12,036.36	-
Expended for plant facilities (including \$60,288.95 charged to current fund expenditures)	-	-	-	-	-	570,850.97
Total revenues and other additions	<u>2,502,832.56</u>	<u>988,124.03</u>	<u>-</u>	<u>482,673.02</u>	<u>12,036.36</u>	<u>570,850.97</u>
<u>EXPENDITURES AND OTHER DEDUCTIONS</u>						
Educational and general expenditures	2,650,017.06	969,448.67	-	-	-	-
Indirect costs recovered	-	18,675.36	-	-	-	-
Expended for plant facilities	-	-	-	477,063.02	33,499.00	-
Expended for noncapital items	-	-	-	5,610.00	180,532.15	-
Other	3,981.26	-	-	-	-	-
Total expenditures and other deductions	<u>2,653,998.32</u>	<u>988,124.03</u>	<u>-</u>	<u>482,673.02</u>	<u>214,031.15</u>	<u>-</u>
Net increase (decreases) for the year	(151,165.76)	-	-	-	(201,994.79)	570,850.97
Fund balances at beginning of year	<u>178,979.04</u>	<u>3,718.59</u>	<u>200.00</u>	<u>-</u>	<u>384,105.37</u>	<u>7,201,683.81</u>
Fund balances at end of year	<u>\$ 27,813.28</u>	<u>\$ 3,718.59</u>	<u>\$ 200.00</u>	<u>\$ -</u>	<u>\$ 182,110.58</u>	<u>\$ 7,772,534.78</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds			Plant Funds		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan Funds</u>	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Investment in Plant</u>
<u>REVENUES AND OTHER ADDITIONS</u>						
Unrestricted current fund revenues	\$ 2,393,090.09	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	29,091.15	-	-	-	-	-
State appropriations	-	-	-	1,211,278.27	-	-
Federal grants and contracts	-	715,350.76	-	-	-	-
Local grants and contracts	-	1,265.00	-	-	-	-
Private gifts, grants, and contracts	-	21,832.10	-	-	-	-
Expended for plant facilities (including \$224,685.71 charged to current fund expenditures)	-	-	-	-	-	1,380,112.84
Investment income	-	-	-	-	20,612.30	-
Total revenues and other additions	<u>2,422,181.24</u>	<u>738,447.86</u>	<u>-</u>	<u>1,211,278.27</u>	<u>20,612.30</u>	<u>1,380,112.84</u>
<u>EXPENDITURES AND OTHER DEDUCTIONS</u>						
Educational and general expenditures	2,342,430.10	861,876.19	-	-	-	-
Indirect costs recovered	-	20,081.86	-	-	-	-
Expended for plant facilities	-	-	-	1,155,427.13	-	-
Expended for noncapital items	-	-	-	55,851.14	-	-
Total expenditures and other deductions	<u>2,342,430.10</u>	<u>881,958.05</u>	<u>-</u>	<u>1,211,278.27</u>	<u>-</u>	<u>-</u>
Net increases (decrease) for the year	<u>79,751.14</u>	<u>(143,510.19)</u>	<u>-</u>	<u>-</u>	<u>20,612.30</u>	<u>1,380,112.84</u>
Fund balances at beginning of year (Note 9)	99,227.90	147,228.78	200.00	-	363,493.07	5,937,709.27
Cumulative effect of change in accounting principle (Note 8)	-	-	-	-	-	(116,138.30)
Fund balances at beginning of year, as restated	<u>99,227.90</u>	<u>147,228.78</u>	<u>200.00</u>	<u>-</u>	<u>363,493.07</u>	<u>5,821,570.97</u>
Fund balances at end of year	<u>\$ 178,979.04</u>	<u>\$ 3,718.59</u>	<u>\$ 200.00</u>	<u>\$ -</u>	<u>\$ 384,105.37</u>	<u>\$ 7,201,683.81</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
 TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE  
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
 FOR THE YEAR ENDED JUNE 30, 1999

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 474,405.75	\$ -	\$ 474,405.75
State appropriations	1,957,170.00	-	1,957,170.00
Federal grants and contracts	20,112.54	942,540.15	962,652.69
Local grants and contracts	113.12	660.55	773.67
Private gifts, grants, and contracts	2,224.70	26,247.97	28,472.67
Sales and services of educational activities	14,288.75	-	14,288.75
Sales and services of auxiliary enterprises	34,517.70	-	34,517.70
Total current revenues	<u>2,502,832.56</u>	<u>969,448.67</u>	<u>3,472,281.23</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	1,583,045.43	335,008.32	1,918,053.75
Student services	260,221.01	-	260,221.01
Institutional support	384,310.84	-	384,310.84
Operation and maintenance of plant	411,615.78	4,768.73	416,384.51
Scholarships and fellowships	10,824.00	629,671.62	640,495.62
Total educational and general expenditures	<u>2,650,017.06</u>	<u>969,448.67</u>	<u>3,619,465.73</u>
Total expenditures and transfers	<u>2,650,017.06</u>	<u>969,448.67</u>	<u>3,619,465.73</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	18,675.36	18,675.36
Indirect costs recovered	-	(18,675.36)	(18,675.36)
Other deductions	(3,981.26)	-	(3,981.26)
Net decrease in fund balances	<u>\$ (151,165.76)</u>	<u>\$ -</u>	<u>\$ (151,165.76)</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE TECHNOLOGY CENTER AT KNOXVILLE  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 334,824.96	\$ -	\$ 334,824.96
State appropriations	1,981,300.00	-	1,981,300.00
Federal grants and contracts	19,004.42	841,650.28	860,654.70
Local grants and contracts	66.95	1,198.05	1,265.00
Private gifts, grants, and contracts	1,010.49	19,027.86	20,038.35
Sales and services of educational activities	12,747.00	-	12,747.00
Sales and services of auxiliary enterprises	29,091.15	-	29,091.15
Other sources	44,136.27	-	44,136.27
Total current revenues	<u>2,422,181.24</u>	<u>861,876.19</u>	<u>3,284,057.43</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	1,384,451.58	366,653.92	1,751,105.50
Student services	241,321.63	-	241,321.63
Institutional support	323,613.65	-	323,613.65
Operation and maintenance of plant	383,148.24	5,465.63	388,613.87
Scholarships and fellowships	9,895.00	489,756.64	499,651.64
Total educational and general expenditures	<u>2,342,430.10</u>	<u>861,876.19</u>	<u>3,204,306.29</u>
Total expenditures and transfers	<u>2,342,430.10</u>	<u>861,876.19</u>	<u>3,204,306.29</u>
<u>OTHER DEDUCTIONS</u>			
Excess of transfers to revenues over restricted receipts	-	(123,428.33)	(123,428.33)
Indirect costs recovered	-	(20,081.86)	(20,081.86)
Net increase (decrease) in fund balances	<u>\$ 79,751.14</u>	<u>\$ (143,510.19)</u>	<u>\$ (63,759.05)</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
Tennessee Technology Center at Knoxville  
Notes to the Financial Statements  
June 30, 1999, and June 30, 1998**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The center is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements of the center have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The center uses the AICPA College Guide model for accounting and financial reporting.

**Basis of Accounting**

The financial statements of the center have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment, and nonmandatory transfers, for all other cases.

**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of the resources available, the center maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives.



**Tennessee Board of Regents**  
**Tennessee Technology Center at Knoxville**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1999, and June 30, 1998**

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Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from receivables and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the center retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include food services and the bookstore. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds expended for, and thus invested in, institutional properties.

**Tennessee Board of Regents  
Tennessee Technology Center at Knoxville  
Notes to the Financial Statements (Cont.)  
June 30, 1999, and June 30, 1998**

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Agency Funds

In handling these funds, the center acts solely as an agent; consequently, transactions of these funds do not affect the center's operating statements.

**Compensated Absences**

The center's employees accrue annual leave at varying rates, depending on length of service or classification. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

**Allocation for Working Capital**

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

**Plant Assets**

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Interest during construction has not been capitalized. Depreciation on the physical plant and equipment is not recorded.

**NOTE 2. DEPOSITS**

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits. The pledged securities are included with securities pledged for funds on deposit for Pellissippi State Technical Community College, the center's lead institution. The bank balance of the operating account maintained by the center was entirely insured.

The center also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment

**Tennessee Board of Regents**  
**Tennessee Technology Center at Knoxville**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1999, and June 30, 1998**

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Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 3. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 1998, amounted to \$180,524.15 for renewals and replacements.

**NOTE 4. PENSION PLAN**

**Defined Benefit Plan**

**Tennessee Consolidated Retirement System**

Plan Description - The center contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The center is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the center are established and may be amended by the TCRS Board of Trustees. The center's contributions to TCRS for the years ended June 30, 1999, 1998, and 1997, were \$78,624.22, \$48,244.02, and \$96,036.46. Contributions met the requirements for each year.

**Tennessee Board of Regents  
Tennessee Technology Center at Knoxville  
Notes to the Financial Statements (Cont.)  
June 30, 1999, and June 30, 1998**

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**NOTE 5. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible center retirees. This benefit is provided and administered by the State of Tennessee. The center assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 6. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. Final settlement has not been made but is expected to be approximately \$6 million. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.219 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1999, the scheduled coverage for the center was \$5,497,100 for buildings and \$2,608,190 for contents. At June 30, 1998, the scheduled coverage was \$7,680,300 for buildings and \$2,222,100 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The center participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on a percentage of the center's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the center participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the center for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in

**Tennessee Board of Regents**  
**Tennessee Technology Center at Knoxville**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1999, and June 30, 1998**

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*Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The center participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 7. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The center records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$558,502.70 at June 30, 1999, and \$538,347.23 at June 30, 1998.

Operating Leases - The center has entered into an operating lease for a building. Such leases will probably continue to be required. Expenditures under the operating lease for real property were \$120,000 for the year ended June 30, 1999, and for the year ended June 30, 1998. The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 1999:

Year Ending <u>June 30</u>	
2000	\$ 120,000.00
2001	<u>120,000.00</u>
Total minimum payments required	\$ <u><u>240,000.00</u></u>

**Tennessee Board of Regents  
Tennessee Technology Center at Knoxville  
Notes to the Financial Statements (Cont.)  
June 30, 1999, and June 30, 1998**

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**NOTE 8. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$116,138.30. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

**NOTE 9. PRIOR-YEAR RESTATEMENT**

The center implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$135,141.96.